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FRANCE'S KEY ROLE

in the Grain Sector of the European Common Market

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FRANCE'S KEY ROLE IN THE GRAIN SECTOR OF THE EUROPEAN COMMON MARKET

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INTRODUCTION

The European Common Market, known officially as the European Economic Community (EEC), is the world's largest grain import market. During 1960-62, the six EEC members imported from outside the area an average of 4.9 million tons of wheat and 9.5 million tons of coarse grains. The U. S. share in these imports equalled 30 percent for wheat and almost 50 percent for coarse grains. Consequently, the United States is extremely interested in future developments in the import needs of this currently large grain import market.

On July 30, 1962, the Community (which currently includes France, West Germany, Italy, Belgium, the Netherlands and Luxembourg) implemented a Common Agricultural Policy (CAP) for grain. The CAP provides for —

(1) Gradual unification of grain support prices in the Community,

(2) Eventual elimination of barriers to intra-EEC grain trade, and

(3) Erection of a common "minimum" import price, enforced by a variable levy, for imports from outside the EEC. These objectives are to be achieved over a transition period which is to end by 1970. Intra-EEC trade is to be encouraged during this period through preferential duties on imports from members.

France will play a key role in determining the EEC's future grain import requirements from non-member sources. France is the only surplus grain producer in the EEC. Furthermore, France is the only one of the six that can greatly increase grain production and exports. The CAP just put into effect could stimulate French grain production and encourage increased exports of French grain to other EEC members. The extent to which France expands its grain output depends in large part, however, on the level at which the EEC's unified grain support price settles.

Traditional outside suppliers to the EEC grain market fear that this price will be substantially higher than the current French price. If this happens it appears certain that France will greatly step up its production and its exports to other EEC countries. Hence, the Community's need for imports from non-member countries would shrink.

Trends in French Grain Production

France is by far the EEC's largest grain producer. French wheat production averages over 11 million tons per year, more than 45 percent of the EEC's present total; its coarse grain[1] production also averages 11 million tons, which is about 40 percent of the Community's total.

During the past decade, grain production in France has increased sharply. Average production rose by 9 million tons, or 60 percent, between 1950-52 and 1960-62. This large increase was caused by a combination of factors, namely, an increase in grain area, higher yields per acre resulting from better technology, and a decided shift from the production of low-yielding grains (i.e., oats and rye) to higher yielding crops (i.e., corn and barley).

Table 1.—FRANCE: Grain acreage, yield, and production, averages for 1910-12, 1930-32, 1950-52 and 1960-62

Commodity	Years	Area	Yield	Production
	Average	1,000 hectares	Metric ton/hectare	Million Metric tons
Wheat.	1910-12	6,520	1.26	8.25
	1930-32	5,335	1.40	7.49
	1950-52	4,289	1.80	7.75
	1960-62	4,344	2.74	11.50
Rye	1910-12	1,196	.99	1.18
	1930-32	720	1.08	.78
	1950-52	465	1.13	.53
	1960-62	283	1.39	.37
Barley	1910-12	760	1.39	1.05
	1930-32	740	1.38	1.02
	1950-52	1,019	1.62	1.65
	1960-62	2,185	2.62	5.60
Oats.	1910-12	3,975	1.26	5.01
	1930-32	3,425	1.32	4.52
	1950-52	2,300	1.50	3.45
	1960-62	1,443	1.85	2.73
Corn	1910-12	461	1.17	.54
	1930-32	341	1.56	.54
	1950-52	341	1.54	.52
	1960-62	890	2.71	2.37
Total[1].	1910-12	12,911	1.24	16.04
	1930-32	10,561	1.36	14.34
	1950-52	8,414	1.65	13.90
	1960-62	9,145	2.47	22.57

1/ Mixed grains (not listed) are included in 1960-62 with the grain they are most closely related to; they are not included in the other averages. In 1910-12 and 1920-32 mixed grains covered about 1 million hectares and in 1950-52 about 0.3 million hectares.

Sources: Annuaire Statistique de la France.
Statistique Agricole, Office Statistique des Communautes Europeennes.

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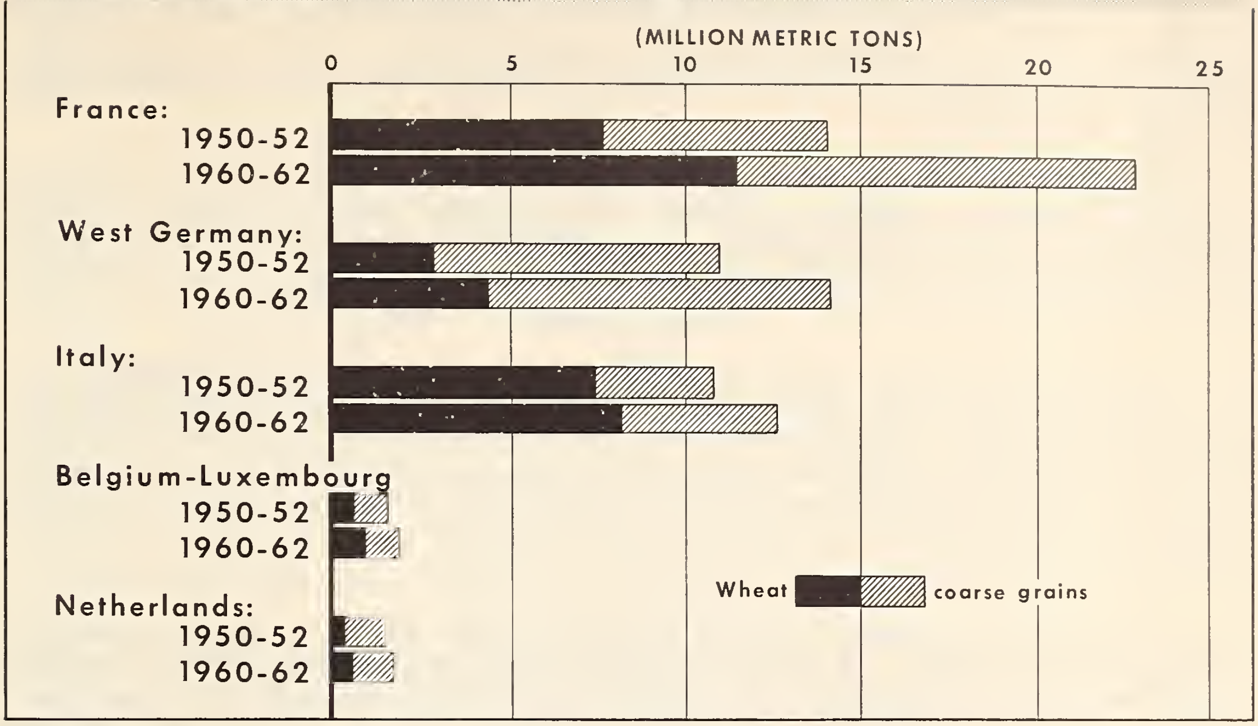
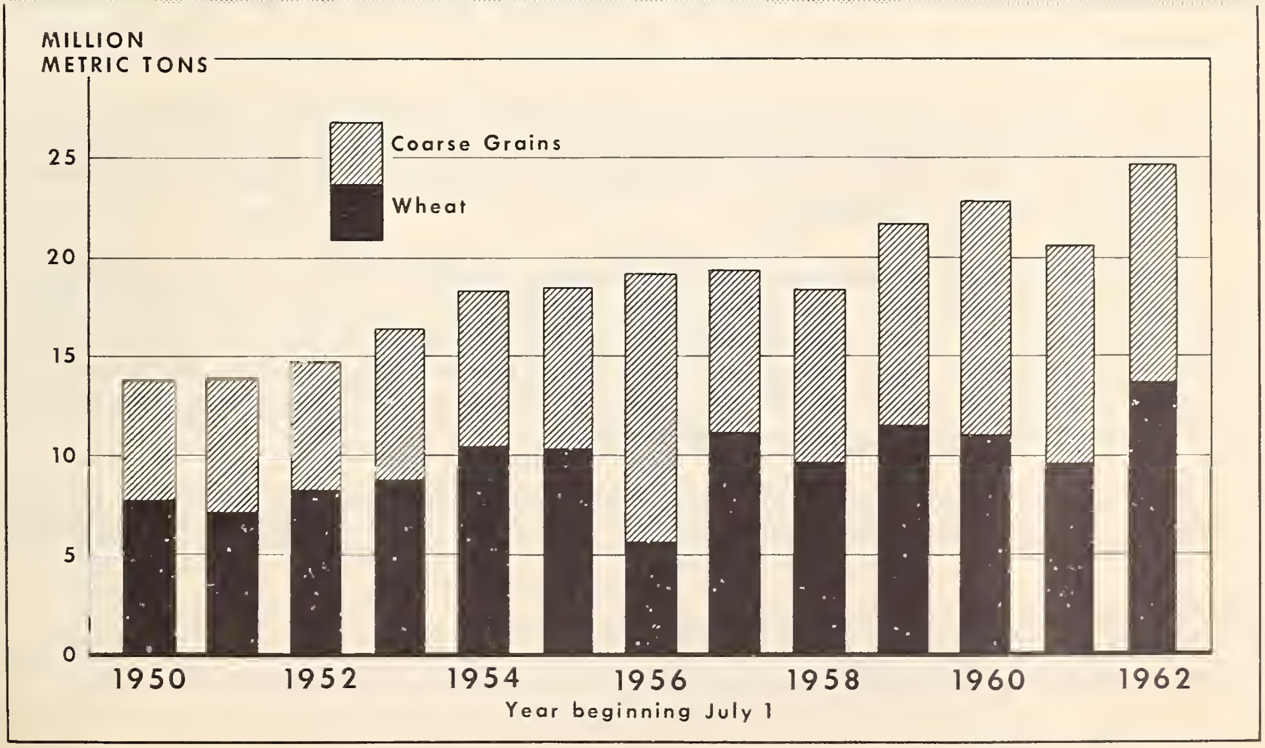
[1] In this report coarse grain refers to all grain except wheat and rice.

AVERAGE EEC GRAIN PRODUCTION, 1950-52 AND 1960-62



FRENCH PRODUCTION OF WHEAT & COARSE GRAINS, 1950-62



Acreage Increases

Acreage under production has increased by about 0.5 million hectares[2] (1.25 million acres) during the past 10 years. This was only a 5-percent rise, hence a relatively unimportant factor in the 60-percent rise in grain production during the period. All of the increase in grain area during this decade went into coarse grain production; wheat acreage remained stable.

The additional acreage under grain did not come at the expense of other crops, but from land returned to cultivation. It came at a time when France was recovering from World War II. A grain acreage increase was a natural consequence to the end of hostilities when the French farm economy was again able to more fully utilize its land resources.

A contributing factor to the grain acreage increase has been the rise in grain producer support prices since 1950. Barley support prices, for example, rose by 90 percent during the past 10 years, wheat prices by 60 percent, and corn prices by about 65 percent. On the other hand, the index of prices paid by French farmers increased by about 60 percent during the same period, cancelling out the effect of most of the barley price increase, almost all of the corn price increase, and the entire wheat price increase.

The question of further acreage increases is the big "if" in future prospects of French grain production. In 1909-13, acreage under grain totaled 14 million hectares (35 million acres). In 1960-62, it was only 9 million (23 million acres). The question is what set of factors would be necessary to return part, the bulk, or all of the remaining 5 million hectares to grain production. The key to this question lies mainly with the level of grain prices adopted by the Community in 1970.

Yield Increases

The trend in French grain yield per acre presents a much clearer picture than that of acreage trends. Average yields of all grains have risen sharply — by over 50 percent between 1950-52 and 1960-62. This has been the dominant factor in the 60-percent expansion of French grain production.

Improved technology has enabled these rapid yield increases. Better seeds (e.g., hybrid corn) have contributed importantly to the rise. The expansion of fertilizer consumption, which has more than doubled during the past decade, has had a great impact on yields. Fertilizer utilization in all of France now averages about 60 pounds per acre of agricultural land. In the more productive areas of the country, consumption averages 160 pounds per acre of agricultural land.

Still another technological factor which has boosted yields is the increased mechanization; this has permitted more timely and rapid farm operations and maximum

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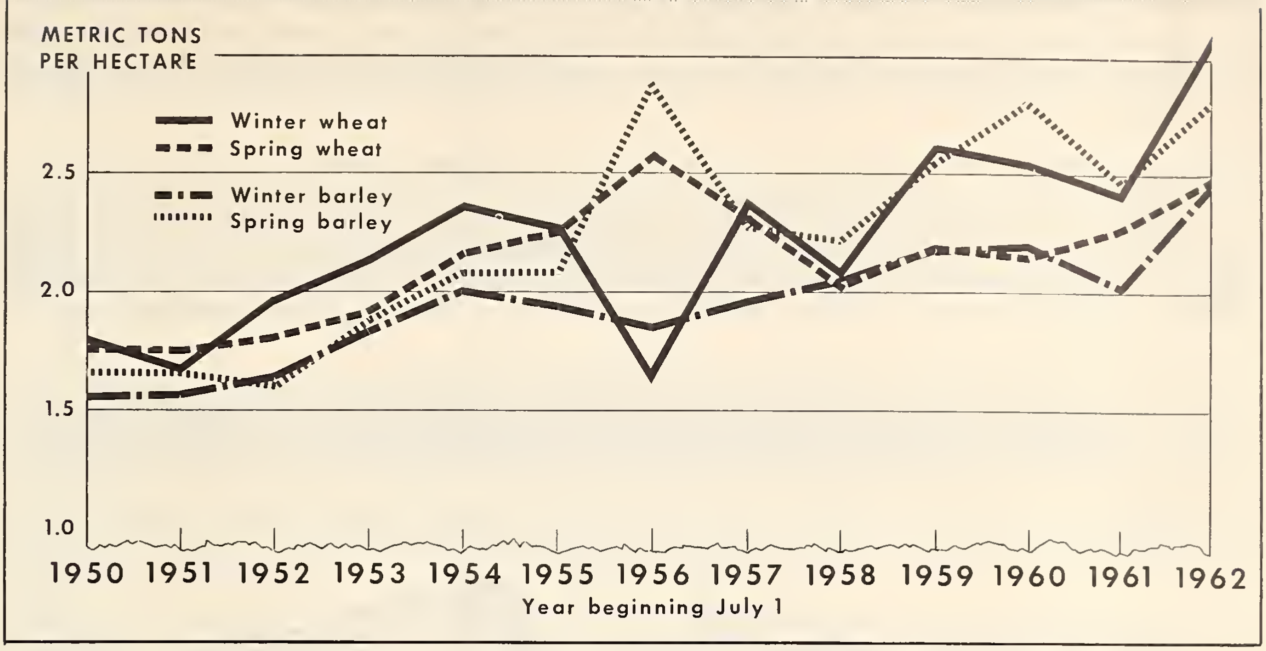
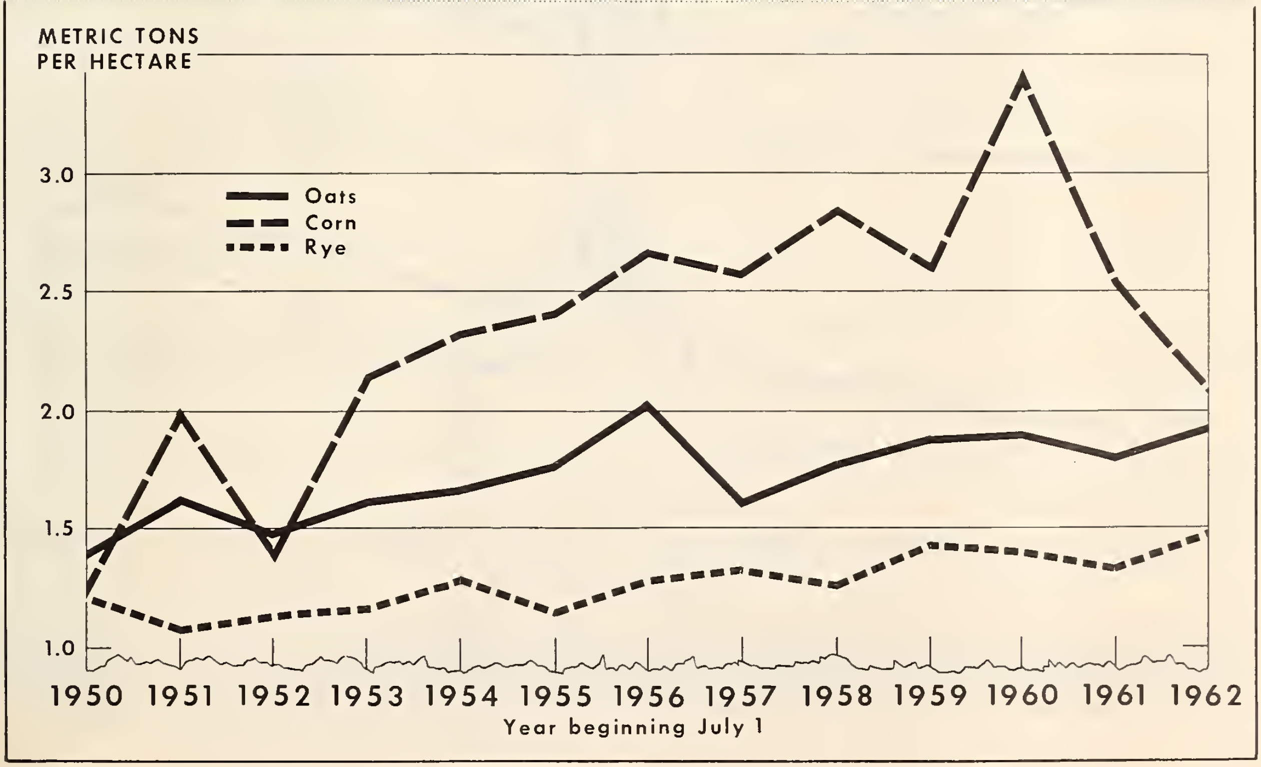
[2] The metric system is used throughout this report:
1 hectare = 2.471 acres
1 metric ton = 2204.6 pounds

FRENCH GRAIN YIELDS: WHEAT AND BARLEY, 1950-62



FRENCH GRAIN YIELDS: OATS, CORN, AND RYE, 1950-62



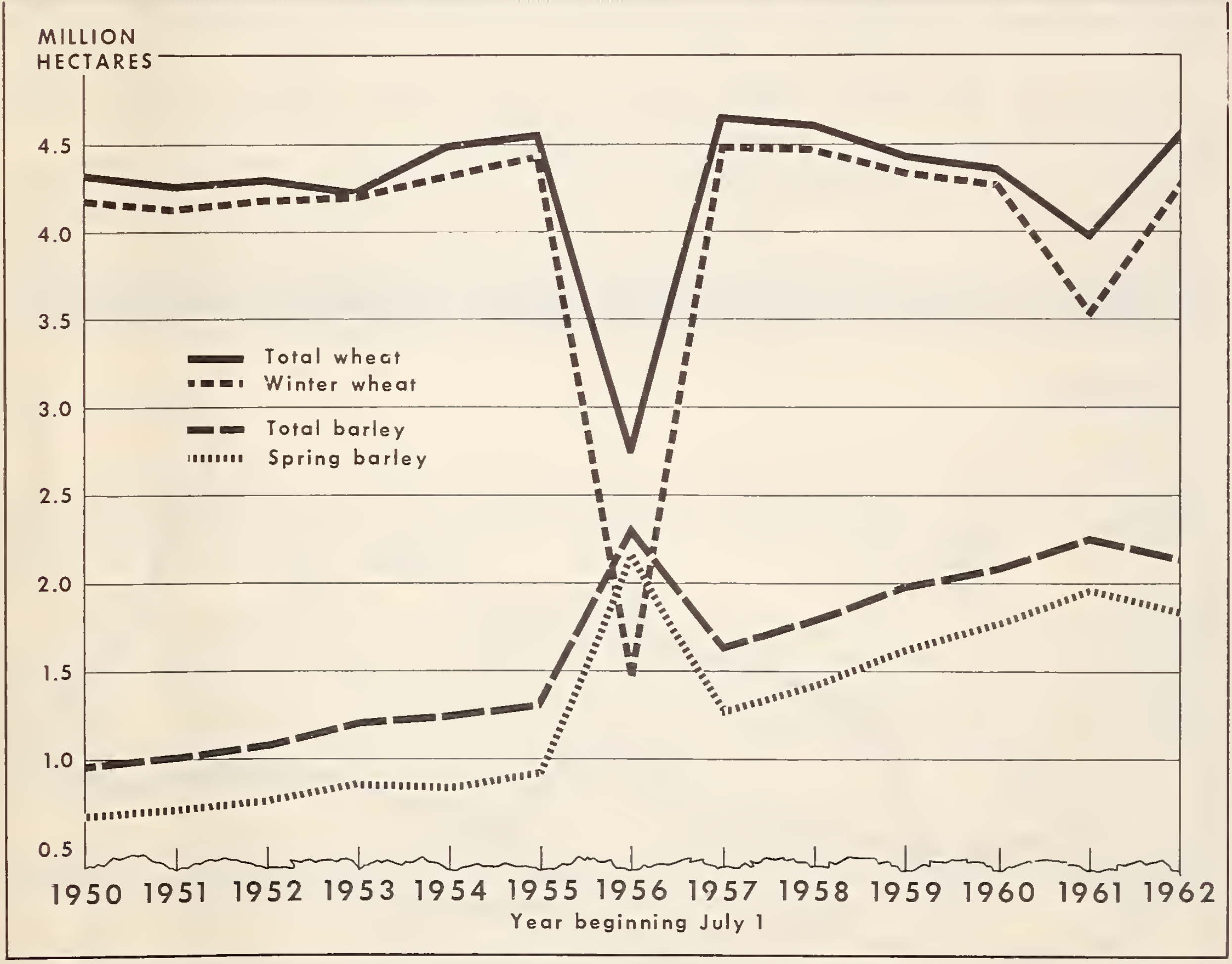
utilization of good weather in harvesting and sowing, and so forth. The number of tractors in France averaged only 1 per 100 acres of agricultural land in 1950; by 1960 there were 5 tractors per 100 acres of agricultural land.

A nontechnological factor affecting average yields of total grain has been the shift in acreage from low-yielding grains (i.e., oats and rye) to the higher yielding grains (i.e., barley and corn).

Shifts in Acreage

While total acreage under grain in France has not changed greatly during the past decade, there have been some very pronounced shifts in acreage from one grain to another. Barley and corn area has doubled while acreage under oats and rye has been reduced sharply. Wheat acreage, on the other hand, has been relatively stable during the past 10 years.

FRENCH GRAIN AREA: WHEAT AND BARLEY, 1950-62



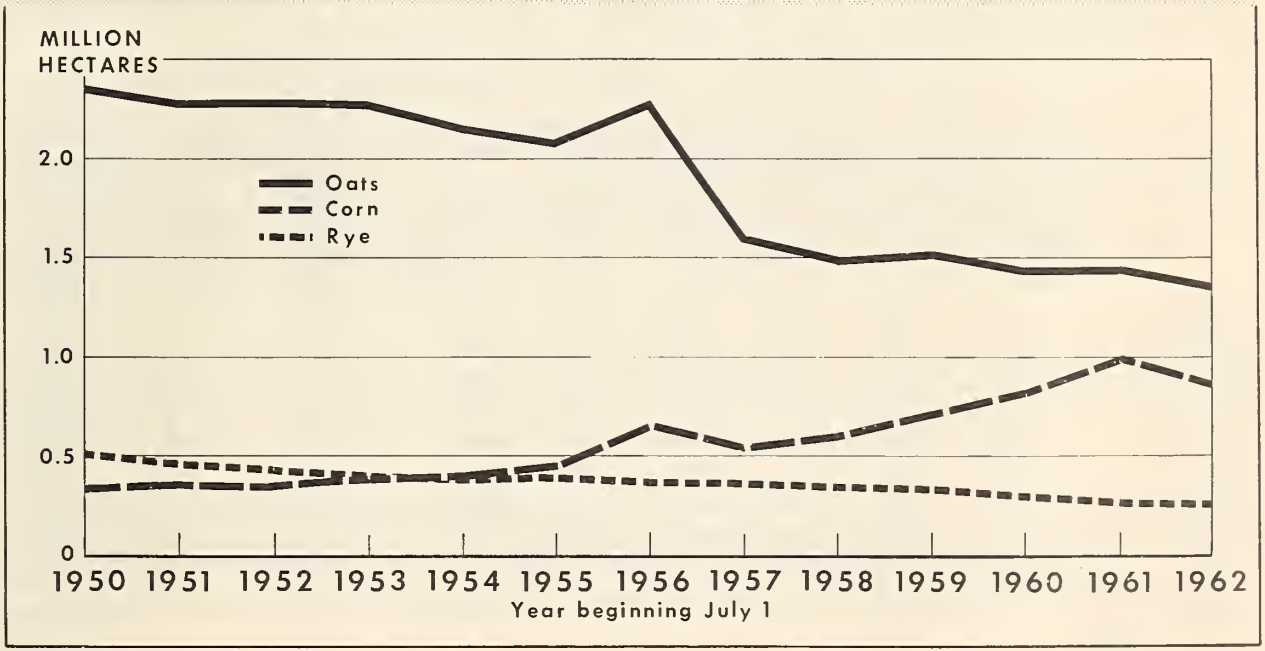
Although total French grain acreage has been relatively stable during the past decade, there have been pronounced shifts from one grain to another. The reduction in wheat resulted from winter kill and reseeding with spring barley.

Oats cultivation has suffered with the decline in the horse population, since the need for feed has been reduced. There also has been a reduction in the demand for rye. Moreover, the prices of these grains have been relatively low. Barley and corn prices, at the same time, have been very favorable. The shift out of oats and rye production and into barley and corn will no doubt continue but is apt to become less pronounced. Rye already has been reduced to a very small acreage.

The decline in oats acreage has been slowed in the last few years. Although France has some very important up-to-date commercial grain production areas, there are large parts of the country which still rely on the horse as the source of power. These less productive areas will continue to raise oats, at least until they become better mechanized. About 80 percent of the oats produced are consumed on the farm where produced, mainly as horse feed.

Any large barley acreage increases from present levels would have to come more, therefore, from land currently producting wheat, corn or non-grain crops. Shifts between barley and wheat will be influenced somewhat[3] by the price relationships between the two grains which compete for the same land. At present the barley producer price is 80 percent of the wheat price on an equal-weight basis. There will be a strong tendency for this 20 percent gap between the wheat and barley price to close as a result of the EEC price unification.

FRENCH GRAIN AREA: OATS, CORN, AND RYE, 1950-62



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[3] There are numerous non-price factors, however, which tend to stabilize the balance of French acreage of wheat and feed grains, Examples are: rotation practices, tradition, the farmers' home needs, the farmers' work plans, i.e., cultivation of fall (wheat) and spring (barley) crops.

Corn acreage has been increasing rather independently of the other grains. A very high price support, above that of wheat in some years, has been paid to corn producers so that its production would be encouraged. About 80 percent of the corn acreage in France is located in the country's extreme south. Most of the corn acreage in this southern region did not displace other crops but came out of land which was not being cultivated previously. Corn acreage will probably continue to increase in this manner. For climatic reasons corn acreage outside the "corn belt" in southern France is not expected to increase greatly above present levels.

The French government's official plan forecasts a 20 percent increase in corn acreage from the current average of 2.2 million acres to 2.7 million acres in 1965. But this would probably be close to the maximum corn acreage likely for France.

Utilization Patterns

Wheat

Total domestic turnover (consumption and exports) of wheat in France has averaged about 11 million tons in recent years. Of this total slightly over 50 percent has been for direct human consumption, about 25 percent for animal feed, 15 percent for exports and the remaining 10 percent for seed, waste and industrial use.

Table 2.—FRANCE: Wheat supply and distribution, 1955-56 through 1962-63

Year	Supply				Distribution					
	Beginning stocks	Production	Imports	Total supply	Animal Feed	Food	Other	Total consumption	Exports	Ending stocks
	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons
1955-56	2.0	10.4	0.8	13.2	2.0	5.9	1.1	9.0	2.6	1.6
1956-57	1.6	5.7	1.7	9.0	.6	5.6	.8	7.0	.4	1.6
1957-58	1.6	11.1	.4	13.1	2.1	5.9	.9	8.9	2.4	1.8
1958-59	1.8	9.6	.7	12.1	2.5	6.1	.9	9.5	1.0	1.6
1959-60	1.6	11.5	.4	13.5	3.2	5.9	.8	9.9	1.7	1.9
1960-61	1.9	11.0	.5	13.4	2.7	6.0	.8	9.5	1.6	2.3
1961-62 1/	2.3	9.6	.4	12.3	(1.8)	(6.0)	(.8)	(8.6)	1.9	(1.8)
1962-63 2/	(1.8)	13.8	(.4)	(16.0)	(3.6)	(5.9)	(.9)	(10.4)	(2.8)	(2.8)

1/ Estimated in part.
2/ Forecast.

Source: Statistique Agricole, Office Statistique des Communautes Europeennes.

Total human consumption of wheat in France has been very stable. The slightly decreasing trend in per capita consumption is offset by population growth.

Feed use of wheat, on the other hand, is increasing steadily. This trend can be expected to continue because of the growing French soft wheat surplus. There is, however, some fluctuation from year to year in the amount of wheat fed, depending on the quality of the wheat crop, the size of the feed grain crop and the extent of subsidization of wheat for feed use.

The bulk of the wheat utilized for animal feed is consumed on the farm where it is produced. This is generally low milling-quality wheat, often sprouted from high moisture content.

Of the total wheat used as feed, which averages 2.7 million tons per year, only about one-sixth is consumed in the form of denatured wheat.[4/]

In the past the use of higher priced denatured wheat for feed was made possible through government sales of such wheat at prices competitive with the feed grains. The Common Agricultural Policy provides for a different method of subsidization. Under the new EEC regulations the French Government will pay a direct subsidy to holders of wheat who denature it for feed use. For the 1962-63 season, the French initially set the maximum on this subsidy of $23.75 per ton or $0.65 per bushel. This maximum was subsequently raised to $25.79 per ton or $0.70 per bushel. It is estimated that 800,000 tons of wheat will be denatured during 1962-63; this compares with a recent annual average of 400,000 tons.

Coarse Grains

The rapidly rising coarse grain production in France has been absorbed for the most part by the country's growing animal products industries. The production of poultry and pork, the main users of grain in France, increased by 58 percent and 47 percent respectively between 1950 and 1960. Beef and dairy production also rose sharply during this period, but cattle are mostly grass fed and account for only a small share of the grain consumed. Beef cattle will probably become more important grain consumers in the years ahead. A "baby beef" industry is in the process of development; this should boost grain consumption of cattle.

Only a small portion of the grain consumed by livestock and poultry is utilized as formula feed. Of the 10.5 million tons of coarse grains and wheat consumed annually by the animal sector, only about 1 million tons was used in mixed feed. But the mixed feed industry, which started only recently in France, is growing very rapidly.

About 85 percent of the total coarse grain consumption is used as animal feed. Direct human consumption of coarse grain (mainly rye) accounts for only about 1 percent of total domestic consumption. About 5 percent of the coarse grain consumed is used in industry; barley is used in the brewing industry, corn in making starch.

4/ Denatured wheat is wheat which has been made unfit for human consumption. This can be done by adding food coloring or incorporating the wheat in a compound feed.

Table 3.—FRANCE: Coarse grain[1] supply and distribution, 1955-56 through 1962-63

Year	Supply				Distribution					
	Beginning stocks	Production	Imports	Total supply	Animal feed	Food	Other	Total consumption	Exports	Ending stocks
	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons
1955-56	.6	8.2	.7	9.5	7.4	.1	1.3	8.8	.1	.6
1956-57	.6	13.7	.2	14.5	9.9	.1	1.2	11.2	1.8	1.5
1957-58	1.5	8.4	.4	10.3	7.8	.1	1.2	9.1	.5	.7
1958-59	.7	8.9	.5	10.1	7.7	.1	1.2	9.0	.1	1.0
1959-60	1.0	10.3	.2	11.5	7.9	.1	1.2	9.2	.7	1.6
1960-61	1.6	12.0	.3	13.9	8.4	.1	1.2	9.7	2.0	2.2
1961-62[2]	2.2	11.1	.5	13.8	(9.0)	(.1)	(1.2)	(10.3)	2.0	(1.5)
1962-63[3]	(1.5)	(10.9)	(.5)	(12.9)	(8.4)	(.1)	(1.2)	(9.7)	(1.6)	(1.6)

1/ In this report coarse grain refers to all grain except wheat and rice.
2/ Estimated in part.
3/ Forecast.

Source: Statistique Agricole, Office Statistique des Communautes Europeennes.

Pricing System and Price Relationships

France has made some basic changes in its grain pricing system for this marketing season (1962-63). These changes were necessary to implement the EEC's Common Agricultural Policy (CAP) which became effective on July 30, 1962. Influenced by the policy modifications are the levels of wholesale, import and export prices, as well as the manner by which some of these prices are formed.

Minimum producer prices are linked to wholesale, import, and export prices in France's new grain price structure. The producer-price system effective this year, however, is essentially the same as it was before the CAP became effective.

The target price is the core of the grain price structure in France as it is throughout the EEC. Producer prices are related to the target prices as are the variable levies collected on imports. These various prices are discussed in the appropriate sections below.

Market Organization

Before the 1961-62 marketing season, the quasi-government National Cereals Office was empowered by the government to regulate the movement, sales and prices of grain. This tight control was enforced through cooperatives and authorized grain dealers who, in effect, were agents of the National Cereals Office.

Farmers were required to market their grain either through the cooperatives or authorized grain dealers. Thus, these firms provided an excellent medium for controlling

Table 4.—FRANCE: Summary of price relationships for soft wheat, barley and corn (average for month of January 1963)

Price	Wheat, soft	Barley	Corn
	Dollars/ metric ton	Dollars/ metric ton	Dollars/ metric ton
Target price, deficit area	101.98	83.44	90.66
Derived target price, surplus area	95.15	76.60	84.54
Intervention price, (outside Marseille)	89.68	72.23	79.64
Basic producer price	87.02	69.79	76.60
Threshold price ("minimum" import price)	100.33	81.38	90.02
"Adjusted" c.i.f. price	57.88	61.28	59.88
Import levy (for non-EEC imports)	42.35	20.10	30.14
Basic export subsidy	42.35	20.10	20.10
Free-at-border price[1]	102.33	87.03	98.37
Actual wholesale price in surplus areas	93.10	78.82	90.78
Actual market price in deficit area	94.74	87.29	---

[1] For exports to West Germany.

Source: Marches Agricoles, Prix Division of Agriculture, EEC Commission.

prices. Farmers were paid fixed prices by the cooperatives, which in turn marketed grain at prices prescribed by the National Cereals Office.

Beginning with the 1961-62 marketing season, this tight control was slackened by a switch from fixed prices to minimum prices. Hence, farmers were insured a minimum price from the cooperative but could bargain for a higher price. The same applied to the cooperatives in their sales.

Since July 30, 1962, when the CAP went into effect, farmers are no longer required to market their grain through cooperatives or authorized dealers. Instead, they may sell directly to millers, compounders and other utilizers. Because of physical problems such as transportation and handling facilities, however, it is expected that cooperatives will continue to dominate the French grain trade. Cooperatives number about 875 and handle about 80 percent of all grain marketed.

The recent freeing of the domestic grain trade should provide extra incentive for cutting marketing costs which are considered unduly high in France. Under the new system of intra-EEC trade it would appear that a streamlining of the French grain marketing system would greatly improve the competitive position of French grain in other EEC countries.

Wholesale Prices

Under the new EEC system wholesale market prices are freely negotiated, generally within the limits of target and intervention price levels.

The target price, as its name implies, reflects the government's price objective in the wholesale market. The government has established target prices for soft wheat, durum wheat, barley, corn, and rye. These prices are assigned for a national standard quality and apply in the country's largest grain deficit area: for wheat, barley, and rye, the largest deficit area is Marseille; for corn, it is Dunkirk.

Table 5.—FRANCE: Target and intervention prices in deficit and surplus areas, at the start of the 1962-63 season

Grain	Target prices		Intervention prices	
	Deficit area	Surplus area (Derived target price)	Deficit area	Other areas
	Dollars/ metric ton	Dollars/ metric ton	Dollars/ metric ton	Dollars/ metric ton
Soft wheat	97.89	91.06	88.10	85.59
Durum wheat	110.79	110.79	104.67	104.67
Barley	79.55	72.72	71.59	68.35
Corn	87.83	81.71	82.57	76.82
Rye	79.67	72.84	71.72	65.55
	Dollars/ bushel	Dollars/ bushel	Dollars/ bushel	Dollars/ bushel
Soft wheat	2.66	2.48	2.40	2.33
Durum wheat	3.02	3.02	2.85	2.85
Barley	1.73	1.58	1.56	1.49
Corn	2.23	2.08	2.10	1.95
Rye	2.02	1.85	1.82	1.67

Source: Prix des céréales 1962-63, Fédération Nationale des Coopératives de Céréales.

For markets other than the deficit area, "derived" target prices apply. The difference between the target price and the "derived" prices equals the freight costs from the given market to the deficit area.

Table 6.—FRANCE: National quality standards for grain

Item	Unit	Soft wheat	Durum wheat	Barley	Rye	Corn
Specific weight	Lbs./bu.	57.9 to 58.7	60.5	52.1	54.4 to 55.9	---
Moisture	Percent	15.5 to 16.5	--	16	15.5 to 16.5	14.5 to 15.5
Total impurities[1]	--do--	5.0	24.0	3.0	5.0	8.5

[1] Foreign materials, germinated seeds, broken kernels, other grains, etc.

Source: Prix des céréales 1962-63, Fédération Nationale des Coopératives de Céréales.

Underpinning the target prices are minimum (intervention) wholesale prices. The government is obliged to purchase any grain which is offered to it at the intervention price. When the National Cereals Office resells grain purchased in such a manner, it must receive a price which aids in moving the market prices towards the target price level.

According to EEC grain regulations, intervention prices must be set from 5 to 10 percent below the target prices. France has only two intervention price levels. One intervention price applies in the largest deficit area, Marseille, and the second is valid in all other parts of the country.

Both target prices and intervention prices increase each month by $0.82 per ton to account for storage, interest, and other carrying costs.

During these first months under the target price system wholesale prices of wheat have been close to the intervention price level, reflecting the large supply of wheat from the 1962 crop. Barley and corn prices, on the other hand, have trended closer to the target price as feed grain supplies are relatively less abundant this season.

In summary, prices of grain on the wholesale market are freely negotiated among buyers and sellers and generally fluctuate between the target price and the intervention price. Wholesale prices for standard quality would not fall below the intervention level, because the government is obliged to purchase at that price. Generally speaking, wholesale prices would not rise above the target price because imports of equal quality would come on the market at that level. The minimum producer price is equal to the intervention price minus a margin of $2.60 per ton to put the price on a producer level.

Producer Price System

Aside from the linking of the basic producer price to the newly established target price system there is no marked change in France's producer price policy for the first year under the CAP.

As in the past, the government claims the responsibility of according the full support price only on a fixed quantity (called quantum)[5] of marketed grain. The administration of the quantum system, however, apparently has been modified.

For the 1962-63 crop, the quantum for soft wheat is 7.2 million tons compared with 6.8 million tons in 1961-62. For barley, it is 2.7 million tons compared with 2.5 million tons for last year. This year's quantum for corn will cover all deliveries this season; last year, it was limited to 1.8 million tons.

Soft wheat is the only grain with which France has a real surplus problem. Actual soft wheat marketings compared with the quantum in recent years have been as follows:

Year	Quantum	Actual marketings
	million metric tons	million metric tons
1959-60	6.8	7.5
1960-61	6.8	7.8
1961-62	6.8	6.8
1962-63	7.2	10.0 (estimated)

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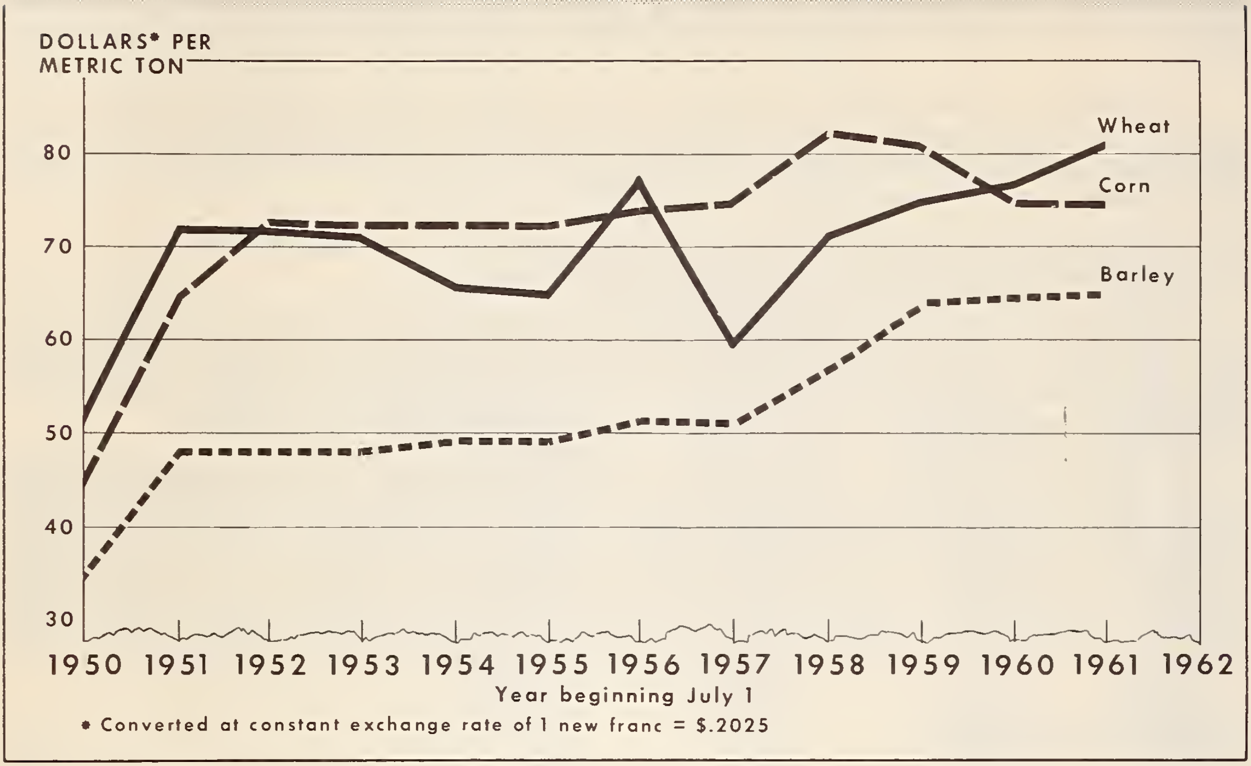
[5] The quantum approximates usual domestic consumption plus usual export sales.

AVERAGE FRENCH GRAIN PRICES TO PRODUCERS, 1950-61



* Converted at constant exchange rate of 1 new franc = $.2025

When marketing through cooperatives or authorized dealers, producers receive an initial payment which amounts to a guaranteed minimum price. This is received at the time the grain is delivered. The initial payment equals the basic producer price minus fixed taxes and deductions which are withheld to help defray government expense in subsidizing the export of grain.

With respect to wheat, larger sums are withheld from farmers marketing above 15 tons (550 bushels); $2.04 per ton is withheld from producers marketing up to 15 tons; from producers marketing above 15 tons, $5.41 per ton is withheld. Depending on the cost to the government in subsidizing exports, part of the sum withheld may be returned to the producer at the end of the marketing year.

The basic producer prices for wheat and barley are the same this year as they were for the 1961 crop. The corn price for this season was set $1.02 per ton over last year's because of this season's short crop. Wheat marketings during 1962-63 are expected to be almost 10 million tons, far above the quantum of 7.2 million tons; hence, little or none of the amount withheld from the farmer's basic minimum producer price is likely to be rebated. It seems likely, therefore, that the net minimum producer price for this year's wheat crop will be less than that of last year; last year the bulk of the amount withheld was returned to the farmers at the end of the season.

As mentioned earlier, the government has guaranteed the basic support price only on the quantum amount. To determine what proportion of each farmer's deliveries fell

Table 7.—FRANCE: Comparisons of 1962-63 basic support prices with those of 1961-62

Year and grain	Intervention price (other than deficit area)	Whole-sale margin	Basic support price	Deductions			Initial advance to producers	Payment at end of season	Net producer price Minimum
				Fixed taxes	Marketings above quantum	Total			
	Dol./ton	Dol./ton	Dol./ton	Dol./ton	Dol./ton	Dol./ton	Dol./ton	Dol./ton	Dol./ton
1961-62									
Soft wheat:2/									
up to 15 tons	---	---	82.94	1.84	1.33	3.17	79.77	0.61	80.38
above 15 tons	---	---	82.94	1.84	5.41	7.25	75.69	3.98	79.67
Barley	---	---	65.70	1.73	.71	2.44	63.26	.71	63.97
Corn	---	---	73.15	1.73	---	1.73	71.42	---	71.42
1962-63									
Soft wheat:2/									
up to 15 tons	85.59	2.65	82.94	1.84	2.04	3.88	79.06	(1/)	(1/)
above 15 tons	85.59	2.65	82.94	1.84	5.41	7.25	75.69	(1/)	(1/)
Barley	68.35	2.65	65.70	1.73	1.02	2.75	62.95	(1/)	(1/)
Corn	76.82	2.65	74.17	1.73	---	1.73	72.44	(1/)	(1/)
	Dol./bushel	Dol./bushel	Dol./bushel	Dol./bushel	Dol./bushel	Dol./bushel	Dol./bushel	Dol./bushel	Dol./bushel
1961-62									
Soft wheat:2/									
up to 550 bu.	---	---	2.26	0.05	0.04	0.09	2.17	0.02	2.19
above 550 bu.	---	---	2.26	.05	.15	.20	2.06	.11	2.17
Barley	---	---	1.43	.03	.02	.05	1.38	.02	1.40
Corn	---	---	1.86	.04	---	.04	1.82	---	1.82
1962-63									
Soft wheat:2/									
up to 550 bu.	2.33	.07	2.26	.05	.06	.11	2.15	(1/)	(1/)
above 550 bu.	2.33	.07	2.26	.05	.15	.20	2.06	(1/)	(1/)
Barley	1.49	.06	1.43	.03	.03	.06	1.37	(1/)	(1/)
Corn	1.95	.07	1.88	.04	---	.04	1.84	(1/)	(1/)

1/ Will depend on the government's expense in disposing of the surplus above quantum.

2/ About 90 percent of the farmers have average marketings of less than 20 tons. These relatively small farmers account for only about half of total grain marketed while the remaining 10 percent of farmers market the other half.

Source: Information et documentation agricole (various issues)

into this full-support category a "percentage levy" system applied; a percentage of a farmer's deliveries were paid at the full support price and the remainder at the non-support price. These percentages were calculated near the end of the marketing season when the government could estimate its expense in disposing of marketings above the quantum. Using the 1960-61 season as an example (in 1961-62, deliveries did not exceed the quantum) the system worked as follows:

...A fixed percent of each portion of a farmer's deliveries were paid at a non-support price ($47.50 per ton). In the first delivery portion, 0 to 15 tons, only 8 percent of the deliveries were calculated at the non-support price; for the portion 15.1 to 60 tons, 16 percent of the deliveries were at the lower price; for the portion above 60 tons, 24 percent of the delivery was paid at the non-support price.

The net effect of these adjustments, however, was only $8 per ton in 1960-61. This was the difference between average prices received by the smallest and largest farmers. Farmers delivering up to 5 tons received an average price of $78.15 per ton, while those delivering in excess of 100 tons received $70.30 per ton.

The quantum system has had little, if any, influence as a supply management tool. Marketings of grain were in no way directly restricted under the system; its effects on production could be transmitted only indirectly through the possibility of somewhat lower average prices to producers in the event of a large crop and marketings in excess of the quantum.

It is not entirely clear how the quantum system will apply during 1962-63, but it is apparent that the percentage levy method will not be used.

To conform to the EEC gain regulations, France must abolish the quantum system by 1970, the end of the CAP's transition period. This suggests that a portion of the basic support price would no longer be withheld to help subsidize what is now termed "deliveries above quantum." Judging from the amounts withheld from producers in 1962-63, abolishing the quantum would be equivalent to raising the minimum guarantee price for wheat by a maximum of 7 percent ($5.41 per ton).

Foreign Trade Regulations and Prices

When the EEC's Common Agricultural Policy was put into force, it involved a great change in the French method of controlling imports and subsidizing exports.

Prior to the CAP, imports were restricted through government monopoly. All imports were made for the account of the National Cereals Office and sold to domestic utilizers at government-fixed prices. This system of state trading provided an extremely restrictive method of regulating imports and the prices of imported grain.

The government's export policy was also one of tight control. The National Cereals Office employed a tender system, limiting exports to specific quantities at given locations.

A subsidy was necessary to make up the difference between the high domestic price exporters had to pay for the grain and the low price (world price) they received for it. When the government made eligible for export a fixed sum of grain, exporters made bids for the subsidy; the exporter bidding the lowest subsidy was awarded the bid.

The state monopoly on foreign trade was abolished with the implementation of the new EEC grain regulations. Imports and exports can now be made independently by private traders, provided they first obtain the necessary certificate from the National Cereals Office.

Import prices, like minimum support prices of domestic grain, are based on target prices. The target price becomes, in effect, a "minimum" import price (i.e., threshold price) by subtracting from it (1) the transportation costs from the port of entry to the deficit area and (2) a theoretical importer's margin. Costs of imported grains are raised to the "minimum" import price by application of the variable import levy.

Prices received for exports fall into two categories: export prices equal to the internal French price for intra-EEC trade and export prices at world price levels for shipments to non-EEC countries. A subsidy (which is at least equal to the import levy) is paid for exports to non-EEC countries; generally, no subsidy is necessary on intra-EEC trade since French grain prices are among the lowest in the Community.

Import Regulations and Prices

The government's import monopoly has been replaced by the EEC variable levy system, as the means for controlling imports and prices of imported grain. The variable import levy for intra-EEC trade, roughly stated, equals the difference between the "internal" prices in the EEC member countries. If, however, the "internal" price in the exporting EEC member country exceeds that of the importing member country, the levy imposed equals that paid for imports from outside the Community. Since French prices are generally the lowest in the EEC, its imports from other Community members are assessed third-country levies.

The variable levy on imports from outside the EEC is, broadly speaking, the difference between the importing member's "minimum" import price and the "lowest" world market price, adjusted to the EEC standard quality.

The "minimum" import price of the importing EEC country is designated as the threshold price. The threshold price and variable import levy for wheat entering France from outside the EEC are calculated as follows:

	Dollars per bushel
Target price	2.660
Transport costs from the frontier to the deficit area	- .072
Importer's margin	
Quality adjustment	---
"Montant forfaitaire" (preferential sum)	± .027
Threshold price	2.615
Adjusted c.i.f. price	-1.630
Import levy	$ .985

Note: The above figures apply to August 4, 1962, just after the new regulations first took effect.

A sum equal to the "montant forfaitaire" (preferential sum) is subtracted from the levies which apply to intra-EEC trade. This allows a margin of preference for exchanges among members.

The quality adjustment is zero in the case of France because the French quality standard equals the EEC standard.

The "lowest" world market price (or "adjusted" c.i.f. price) used in determining the variable levy which applies equally to all imports from outside the Community is decided each day by the EEC Commission on the basis of actual c.i.f. prices supplied to them by importers.

To assist in determining this "adjusted" c.i.f. price the Commission has set quality differentials for the various types of grain traded on the international market; these differentials put the different grain types on an even quality/price basis with the EEC standard quality. The "adjusted" c.i.f. price is the lowest figure derived after applying the quality differential to the grain concerned.

In the case of wheat the EEC quality standard is below the quality of most of the wheat traded in the world market. Quality differentials in these cases are subtracted to adjust the price of the grain in question down to the EEC standard.

The EEC standard for feed grains, on the other hand, is generally higher than that of most types of feed grains traded in the world market. Hence, the quality differentials used in determining "adjusted" c.i.f. prices for feed grains are, in most cases, added to the actual c.i.f. prices. This, of course, has the effect of reducing the gap (i.e., levy) between the "adjusted" c.i.f. price and the EEC member's threshold price.

The following example shows how "adjusted" c.i.f. prices for types of wheat are determined:

Type	C.i.f. price	Quality differential	"Adjusted" c.i.f. price
	Dol./ metric ton	Dol./ metric ton	Dol./ metric ton
Soft Red Winter	64.00	3.75	60.25
Hard Red Winter I and II (without protein guarantee)	67.00	9.00	(58.00)
Hard Red Winter I and II (14% protein guarantee)	72.50	12.00	60.50
Manitoba I	76.00	12.50	63.50
Manitoba III	72.00	10.50	61.50
Rosafe (Argentina)	69.00	9.00	60.00
Type 431 (Russian)	70.00	9.00	61.00

Hard Red Winter I and II (without protein guarantee) had the lowest "adjusted" c.i.f. price ($58.00); this price would, therefore, be subtracted from the threshold price on that given day to determine the levy. Suppose that, on the next day, the price of Soft Red Winter dropped to $61.00 per ton while the prices of the other types remained constant. Soft Red Winter would then have the lowest adjusted c.i.f. price ($57.25) and would be used to determine the levy on that day.

The variable levies effective on imports from non-EEC countries at various dates since the CAP took effect are as follows:

	Aug. 17, 1962	Nov. 12, 1962	Jan. 21, 1963
	Dol./ metric ton	Dol./ metric ton	Dol./ metric ton
Soft wheat	37.10	40.48	42.34
Barley	21.73	26.28	19.72
Corn	38.82	36.15	27.86
Oats	14.07	14.58	10.98
Rye	21.91	23.51	12.51

The fluctuations in the import levies shown above were caused by two factors (1) the monthly increase in the threshold prices and (2) changes in world market prices (i.e., "adjusted" c.i.f. prices).

With respect to wheat, world market prices were relatively steady during the 5-month period; hence, the increase in the levy was roughly equal to the rise in the threshold price.

World market prices of feed grain, on the other hand, have risen in this period; this change has more than offset the increase in threshold prices. The sharp decline in the levy on corn also reflects a downward adjustment that was made in the threshold price in October, when the 1962-63 corn price structure was finalized.

Although the current grain import levies are high, they are not as restrictive a device as was the government's state trading monopoly. France is not, however, a potentially large importer of grain. In fact, the country has a large grain export surplus. Hence, the new levy system is not expected to lead to an increase in French grain imports.

The import levy equals the basic export subsidy, since both elements are roughly equal to the difference between domestic prices and world prices.

Export Regulations and Prices

The export regulations provided for in the EEC grain policy are intertwined with the import regulations. The concept of equalization is just as much present in the export price structure as it is in the import pricing system. With regard to third-country trade, the world market price is brought to the level of the domestic price by the import levy. The domestic price is put on a competitive basis with the world market price through an export subsidy.

The basic export subsidy is equal to the variable import levy on any given day. However, a supplemental payment may also be given to exporters when the National Cereals Office feels that such a premium is necessary to stimulate exports. For example, some shipments recently made to Mainland China were allowed a basic subsidy of $1.11 per bushel plus a supplemental payment of $0.25 per bushel, or a total subsidy of $1.36 per bushel.

As mentioned earlier, French exporters generally do not receive a subsidy on intra-EEC trade. Exporters must get the internal price (the price they pay) plus a margin and the costs of moving the grain to the importing member country's border. Member country importers are able to pay the high French prices because of the relatively small levies placed on intra-EEC trade; these levies equalize the difference between the importing member's threshold price and the exporting member's free-at-border price. The free-at-border prices (hence the levies) are set weekly for each member country by the EEC Commission. Free-at-border prices are based on actual prices ruling in the most representative markets for exports to the importing EEC country in question.

The levy paid by West German importers for French grain is illustrated in the following calculation:

	Soft wheat	Barley	Corn
	Dol./ metric ton	Dol./ metric ton	Dol./ metric ton
Threshold price, West Germany	124.00	109.75	111.00
Free-at-border price, France	97.88	83.15	94.54
Import levy (gross), West Germany	26.22	26.60	16.46
Minus preferential sum	-1.00	-1.00	-1.00
Import levy (net), West Germany	25.22	25.60	15.46

Note: Prices effective on Nov. 12, 1962.

West Germany is France's principal grain market in the EEC. The competitive position of France is expected to be enhanced in that important market (as well as other EEC markets) by the grain regulations adopted by the Community.

The EEC grain regulation provides for a preferential sum ("montant forfaitaire") which is first added to EEC threshold prices but subsequently subtracted from intra-EEC levies. This preferential sum increases the cost of third-country grain in relation to grain imported from EEC members. To illustrate, the following prices of November 12, 1962, contrast costs to the West German importer of U. S. Hard Winter #2 and of French wheat, at Hamburg, West Germany:

	U. S. Hard Winter #2	French wheat (soft)
	Dol./ metric ton	Dol./ metric ton
Actual c.i.f. price	68.00	100.50
Import levy (gross)	63.55	26.22
Preferential sum	-0.00	-1.00
Import levy (net)	63.55	25.22
Total cost to West German importer	131.55	125.72

For the 1962-63 marketing season, the preferential sum has been set at $1 per metric ton. European traders feel that this preference differential is too small to encourage imports of French wheat, especially in the face of the large 1962 soft wheat crop throughout the EEC. French wheat export statistics verify this claim. During the first half of the 1962-63 season, licenses issued for French wheat exports indicated that only 5 percent of the total is moving to EEC destinations. The fact remains, however, that the preferential sum could be increased, and, indeed, is supposed to be, if the intra-EEC trade does not expand.

Since no subsidy is usually paid on French exports to other EEC members, the government would, of course, prefer to have exports move within the Community. But individual exporters are profit-motivated; if more can be made by exporting outside the Community and taking the subsidy, then this will be done. Also, exporters of soft wheat may continue to experience difficulty in finding buyers in the EEC, as is currently the case.

Recent Trends in Trade

France is a large exporter of wheat and barley, as well as a newly emerging exporter of corn. During the past two years French grain exports have averaged as follows: wheat and flour, 1.7 million tons; barley, 1.5 million tons; and corn, 500,000 tons.

French grain imports, on the other hand, are small. Durum wheat imports average about 0.5 million tons. Coarse grain imports (mainly corn for starch manufacture) average only 0.3 million tons.

As the only EEC country with a surplus of grain, France has a potential for expanding the level of its grain exports. Given the preferential trading arrangements that France is to receive under the EEC grain regulations, its growing grain export surplus takes on special significance to outside suppliers of the important Community market.

EEC wheat and flour imports from outside the Community now average almost 5 million tons; coarse grain imports average about 9 million tons. France has hitherto supplied only a minor portion of the import needs of other EEC members. However, as the French surplus of soft wheat, barley and corn mounts, there will be increased efforts to expand shipments of these grains to other EEC countries. As mentioned above, French grain exports within the Common Market are now made without subsidy.

Wheat Exports

France has become a regular exporter of wheat, and ranks as sixth in the world. During the past six years, French wheat and flour exports have ranged from 1.1 to 2.3 million tons. Exports from the 1962 wheat crop are expected to range from 2.5 million to 3.0 million tons.

The principal market for French wheat has been West Germany. Other members of the Community have taken only minor portions of French wheat shipments. Taken together, France's Common Market partners have accounted for 30 to 35 percent of its wheat exports.

The countries of northern Africa, especially Algeria, have also been important purchasers of French wheat. Algeria, Morocco, and Tunisia have taken French soft wheat, while France has in turn imported durum wheat from these nations.

It appears that this year's large export surplus will go primarily to markets that are not traditional importers of French wheat. Preliminary information indicates that as much as 1.5 million tons will be exported to Mainland China and Communist East Europe. In the past, these countries have been relatively unimportant purchasers of French wheat. The remaining 1 to 1.5 million tons of wheat available for export would be just adequate to supply traditional markets.

Table 8.—FRANCE: Wheat and flour (grain equivalent) exports by destination, 1956-57 through 1961-62

Destination	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62
Europe:	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
Belgium-Luxembourg .	2.2	9.9	3.2	6.3	5.8	1.6
Germany, West. .	86.9	531.1	265.8	461.0	516.0	556.7
Italy.	--	3.4	--	--	--	1.4
Netherlands	7.0	103.4	25.1	43.1	33.2	47.6
Sub-total (EEC) .	96.1	647.8	294.1	510.4	555.0	607.3
United Kingdom. .	24.6	728.1	127.0	127.0	101.9	185.7
Switzerland	6.5	34.0	15.5	43.9	43.2	69.8
Other Europe . . .	5.5	126.0	31.7	60.2	69.9	14.3
Total.	132.7	1,535.9	469.1	741.5	770.0	877.1
Western Hemisphere:						
French West Indies.	44.2	89.2	47.6	50.0	47.7	51.9
Other	1.5	2.8	28.2	103.2	40.7	55.9
Total.	45.7	92.0	75.8	153.2	88.4	107.8
Africa:						
Algeria	6.6	22.9	56.7	388.6	132.6	205.7
Morocco	.5	29.8	27.3	3.4	169.8	75.7
Tunisia	--	--	--	30.8	61.6	.9
Other	121.6	315.9	311.9	327.8	223.9	244.0
Total.	128.7	368.6	395.9	750.6	587.9	526.3
Asia:						
Ceylon	46.8	105.1	--	3.1	14.4	13.8
Indonesia.	--	67.2	50.9	11.2	15.6	1.9
Mainland China. .	--	1.0	--	3.1	--	198.8
Other	38.2	93.1	34.5	66.4	47.5	108.8
Total.	85.0	266.4	85.4	83.8	77.5	323.3
Others and unspecified . .	1.9	5.8	29.1	37.5	34.9	19.1
World total	394.0	2,268.7	1,055.3	1,766.6	1,558.7	1,853.6

Compiled from Statistique Mensuelle Du Commerce Exterieur.

Barley Exports

French barley exports have shown much more fluctuation than the country's wheat exports, ranging from 57,000 tons in 1958-59 to 1.5 million tons in 1956-57.

France's barley exports go to a much smaller number of countries than its wheat. Western Europe takes the bulk; EEC countries alone provide a market for about half of the total.

As in the case of wheat, West Germany is the primary market for French barley; Italy has become the second largest customer, and Belgium-Luxembourg third.

Table 9.--FRANCE: Barley exports by destination, 1956-57 through 1961-62

Destination	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
Europe:						
Belgium-Luxembourg .	417.9	160.3	5.2	94.3	183.5	140.2
Germany, West. .	296.8	167.1	6.6	131.3	184.9	373.5
Italy.	8.0	2.1	1.0	7.2	116.7	291.4
Netherlands	181.8	56.2	--	29.7	83.5	91.2
Sub-total (EEC).	904.5	385.7	12.8	262.5	568.6	896.3
United Kingdom .	218.5	96.9	2.6	.2	73.1	47.0
Denmark.	97.5	59.5	10.3	50.6	104.0	61.3
Switzerland	123.1	57.3	1.5	85.3	147.1	142.2
Others	203.6	23.2	30.2	28.7	108.9	121.2
Total.	1,547.2	622.6	57.4	427.3	1,001.7	1,268.0
Africa:						
Algeria.	6.1	9.2	12.8	11.5	22.9	106.2
Morocco	.6	--	--	--	74.9	65.1
Tunisia.	--	--	--	.8	39.6	12.5
Others	.9	3.5	2.4	3.0	5.8	11.6
Total.	7.6	12.7	15.2	15.3	143.2	195.4
Others and unspecified . .	8.5	29.4	9.6	32.3	33.9	322.4
World total	1,563.3	664.7	82.2	474.9	1,178.8	1,785.8

Compiled from Statistique Mensuelle Du Commerce Exterieur.

Corn Exports

Until two years ago, France was a net importer of corn. A sharp rise in corn production caused by increases both in area and in yield put the country on a net export basis in 1960-61 and 1961-62. Drought in the corn-producing area resulted in a poor crop in 1962. This will cause imports to exceed exports for 1962-63. However, under normal weather conditions, France is expected to continue increasing corn production and exports.

By far the largest markets for French corn have been Italy and the United Kingdom.

Table 10.—FRANCE: Corn exports by destination, 1959-60 through 1961-62

Destination	1959-60	1960-61	1961-62
	1,000 metric tons	1,000 metric tons	1,000 metric tons
Europe:			
Belgium-Luxembourg	.6	6.5	3.4
Germany, West	.5	80.3	34.5
Italy	10.5	262.3	123.3
Netherlands	1.6	1.5	1.6
Sub-total (EEC)	13.2	350.6	162.8
United Kingdom	70.7	235.9	123.0
Denmark	6.5	28.1	6.4
Switzerland	2.1	16.2	25.5
Other	2.0	39.6	7.1
Total	94.5	657.8	324.8
Others and unspecified	--	12.6	18.1
World total	94.5	670.4	342.9

Compiled from Statistique Mensuelle Du Commerce Exterieur.

Effects of the EEC on Trends in the French Grain Economy

France's implementation of the EEC's Common Agricultural Policy has already brought about some basic changes in the country's grain pricing system and trade regulations. Still more adjustments, of even greater importance, (e.g., price level changes) are expected to come during the transitional period of the CAP. These changes are likely to have a strong influence on French grain prices, production, and trade.

Price Changes

The key to the future impact of the Common Market policy on the French grain economy will be the level of uniform grain prices adopted by the Community. For 1962-63 — the first marketing season under the CAP — the decision was made to set only upper and lower limits for grain prices in the Community. French basic support prices (which were within these limits) were merely carried over from the previous year with only minor change. Prices in the EEC are supposed to begin moving toward a common level during the coming season (1963-64).

French grain prices are among the lowest in the Community. The EEC's price unification plan for 1970 does not necessarily commit the French to raise their price levels to those of the higher-price members, but it appears that some compromise will be made.

West Germany has the Common Market's highest grain prices. Its wheat intervention price for 1962-63 ranges from $2.91 per bushel in the surplus area to $3.01 per bushel in the deficit area, for the German standard quality. The intervention price for wheat in France, on the other hand, is only $2.33 per bushel. The current gap between French and West German intervention levels is even wider than their prices indicate. To put the French and West German intervention prices on a more comparable basis two adjustments, which further widen the gap by $0.26 per bushel, are necessary: (1) The French price is deflated as much as $0.20 per bushel to account for the taxes on producers which are not applied in West Germany and (2) the West German price is inflated $0.06 per bushel in adjusting it up to the (higher) French quality standard.

As EEC prices are unified, however, there is a compensating factor which will help bridge the gap between current French and West German grain prices. This is the factor of location of producing areas in relation to the Community's deficit area, which is intended to be Mannheim, West Germany. Intervention prices in the main French producing area would be about $0.30 per bushel below the Mannheim price because of transportation costs from the French producing area. These costs would, however, be reduced if, as expected, the French marketing system becomes more efficient.

The feed grain - wheat price relationship also varies from country to country within the Common Market. With the unification of grain prices, the price relationships between wheat and feed grains must, of course, also be harmonized. The Netherlands and Germany currently have the smallest gap between barley and wheat prices. In both these countries, the average producer price of barley has equalled roughly 86 to 90 percent of the wheat price. This gap is larger in France and Belgium, where it has ranged from 80 to 85 percent. Italy has the EEC's widest gap between wheat and feed grain prices. Average producer prices for feed grains (mainly corn) have equalled only about 60 percent of wheat price in Italy.

The trend in the ratios of feed grain to wheat prices in the EEC clearly shows a closing of the gap. With the exclusion of Italy, which is only a minor barley producer, the simple average percentage of the barley price in relation to wheat increased from 81 percent in 1953-55 to about 85 percent in 1959-61. This trend results from the fact that Western Europe is rapidly developing a large surplus in soft wheat production, in contrast to its continued deficit in feed grain production. One method of stimulating feed grain production relative to wheat is to increase its price in relation to the wheat price.

This trend of closing the gap between wheat and feed grain prices in the EEC is expected to continue. There are indications that as the Community unifies its grain price in "1970," barley prices will equal 87 to 90 percent of the wheat price.

Implementation of the EEC Common Agricultural Policy has had no measurable effect on French grain producer prices during 1962-63. The basic support prices are essentially the same as they were in 1961-62, before CAP became effective.

Since producer prices are free to move above the support levels, domestic production as well as quality variation, and not the CAP, will be the factors which determine any change in average producer prices between 1961-62 and 1962-63.

Average producer prices for wheat will probably be below those of last year because of the abundant 1962 crop. Feed grain supplies, on the other hand, are down from last year. This could lead to higher average feed grain prices during the first year under the CAP.

When the quantum system is completely done away with, as is planned, deduction from the basic support price for above-quantum marketings would be eliminated. This alone could have the effect of raising minimum net prices received by grain producers by as much as 6 or 7 percent for wheat and 2 percent for barley.

Effects on Grain Production

French grain production has been expanding sharply. It appears certain that this trend would have continued with or without the EEC's Common Agricultural Policy.

Most of the expansion in production has come from higher yields and shifts from production of lower yielding to higher yielding grains. Grain area during the past 10 years has increased only about 5 percent while average production rose by about 60 percent.

Even without the Common Agricultural Policy, yields should be expected to rise steadily, as in the past. Also, the shift from less oats and rye to more barley and corn production would doubtless continue with or without the effects of the EEC.

It is generally agreed, however, that if French grain prices rise significantly under the CAP, additional grain acreage will come under production. This would add to the rapid rise in production which would be expected even under present French prices.

The EEC Commission has directed a projection study[6/] regarding the production, consumption, and net trade of the Community in 1970. The study shows, in the first place, that if prices remained at current levels and total grain acreage did not change: (1) Grain production in France would increase from an average of 20 million tons in 1957-59 to 26.6 million tons by 1970; (2) consumption between the same two periods would rise from 18.5 million tons to 21.0-21.6 million tons; (3) hence, net exports of France would climb from 1.5 million tons in 1957-59 to 5.0-5.6 million tons by 1970.

The net import needs of the Community, on the other hand, would not change greatly under the same set of assumptions.

To supplement the above projection on French grain production, the EEC Commission directed another inquiry regarding the effect of various price levels on French grain acreage and production. It was concluded that of the 5 million hectares which have drifted out of grain production during the past 5 decades it is "technically possible" to return only 1.5 million to 1.6 million hectares to grain.

The question which follows is what set of economic forces, i.e., what level of grain prices, would be required to return the maximum of 1.5 million to 1.6 million hectares

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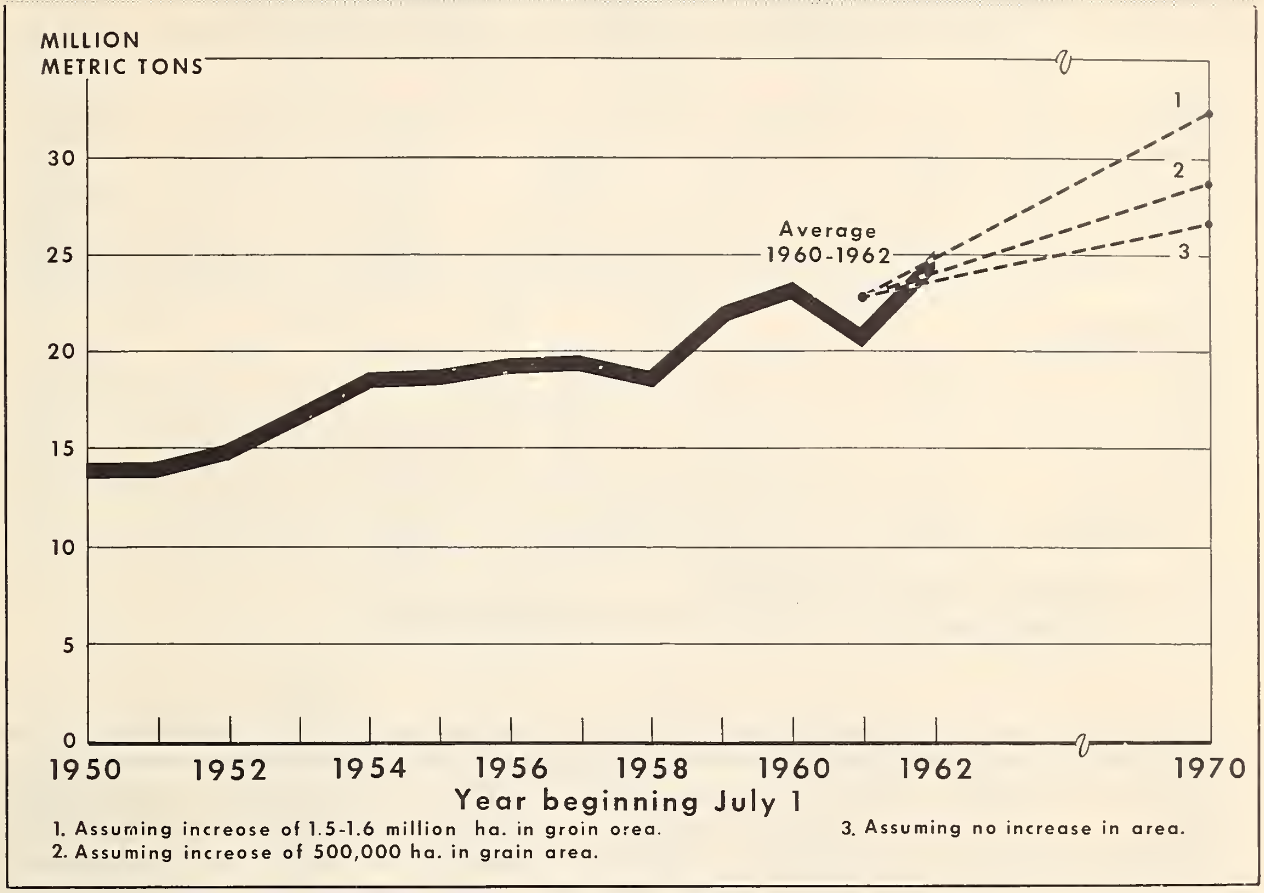
[6/] Perspectives "1970," Etude #10, 1962, EEC Commission.

to grain production. It was concluded that an increase of more than 20 percent in the French grain price would be necessary to increase grain area to the maximum technically possible. This would mean a grain price on the order of the present German price.

TOTAL FRENCH GRAIN PRODUCTION, 1950-62 & Projections To 1970



The three different projected levels carry the following price assumptions: (a) No change in grain area assumes no change in grain price; (b) 0.5 million hectare increase assumes moderate increase in nominal price, about equal to expected rise in general price level; and (c) 1.5 to 1.6 million hectare increase assumes more than 20 percent increase in grain price.

If French grain area were to increase by 1.5 to 1.6 million hectares, production in 1970 is projected by the EEC experts at 32.6 million tons. This increase would cut deeply into the Common Market's needs. Without this tremendous expansion in French production (i.e., with constant prices, constant grain acreage) the EEC's needs from the outside are projected at 8.4 to 10.0 million tons.

With French production at 32.6 million tons in 1970, the Community's net imports would be reduced to 2.9 to 4.5 million tons, all other things being equal. The Community's net imports averaged 9.2 million tons in 1957-59.

Table 11.—FRANCE: Supply balance for wheat and coarse grains, averages for "1951" and "1958"

Item	"1951" (1950-52) Wheat	"1951" (1950-52) Coarse grains	"1951" (1950-52) Total	"1958" (1957-59) Wheat	"1958" (1957-59) Coarse grains	"1958" (1957-59) Total
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
Supply:						
Production. . . .	7,745	6,435	14,180	10,760	9,221	19,981
Change in stocks	+ 268	+ 4	+ 272	+ 105	+ 53	+ 158
Imports.	595	749	1,344	500	368	868
Exports.	416	42	458	1,719	429	2,148
Net trade[1/] . . .	+ 179	707	+ 886	-1,219	-61	-1,280
Total supply . .	7,656	7,138	14,794	9,436	9,107	18,543
Consumption:						
Animal feed . . .	167	5,612	5,779	2,625	7,807	10,431
Seed.	903	718	1,621	806	628	1,434
Industrial use. .	--	320	320	5	534	539
Loss.	175	177	352	48	16	64
Human food . . .	6,411	311	6,722	5,952	122	6,074
Total consumption. . .	7,656	7,138	14,794	9,436	9,107	18,542

[1/] (+) = net imports; (—) = net exports.
Source: Perspectives "1970," Etudes #10, 1962, EEC Commission.

Besides the projections regarding French production in 1970 at constant prices, and at prices near the West German level, a third projection was made assuming an increase in the nominal price in France about equal to the general price rise (no "real" price increase). The EEC experts feel these conditions would lead to an expansion in grain acreage of .5 million hectares. Such an acreage increase would also be consistent with recent trends in grain area. Given this price-level assumption, production is estimated at 28.6 million tons, or 2 million tons above the estimate of production assuming constant prices and no change in total grain acreage.

The French government's plan for 1965 shows even greater optimism regarding future grain production. This optimism is based on the expectation of an increase in French grain area yields for 1965, as follows:

	Area	Yield	Production
	1,000 hectares	metric tons/ha.	1,000 metric tons
Soft wheat.	4,450	2.75	12,240
Durum wheat.	80	1.85	150
Barley	2,415	2.90	7,000
Corn	1,100	3.70	4,100
Oats.	1,100	2.05	2,250
Rye	200	1.50	300
Total	9,345		26,040

Source: IV ème Plan de Modernisation et d'équipement.

Table 12.—FRANCE: Projected supply balance for wheat and coarse grains, 1970
(assumes constant grain prices and no change in grain area)

Item	"Strong increase in income" assumption			"Weak increase in income" assumption		
	Wheat	Coarse grain	Total	Wheat	Coarse grain	Total
	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons	Million metric tons
Supply:						
Production	13.74	12.89	26.63	13.74	12.89	26.63
Net trade[1]	-2.87	-2.71	-5.58	-2.67	-2.35	-5.02
Total	10.87	10.18	21.05	11.07	10.54	21.61
Consumption:						
Animal feed	4.10	8.68	12.78	4.30	8.99	13.29
Seed	.81	.63	1.44	.81	.63	1.44
Industrial use	.01	.73	.74	.01	.78	.79
Loss	.05	.02	.07	.05	.02	.07
Human food	5.90	.12	6.02	5.90	.12	6.02
Total consumption	10.87	10.18	21.05	11.07	10.54	21.61

[1] (+) = net imports; (—) = net exports.
Source: Perspectives "1970," Etude #10, 1962, EEC Commission.

Table 13.—EEC: Projected supply balance for wheat and feed grains in 1970
(assumption of constant prices and no change in area)

Item	"Strong increase in income" assumption			"Weak increase in income" assumption		
	Wheat	Coarse grain	Total	Wheat	Coarse grain	Total
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
Supply:						
Production	30,170	33,250	63,420	30,170	33,250	63,420
Net trade[1]	---	+9,950	+9,950	---	+8,370	+8,370
Total	30,170	43,200	73,370	30,170	41,620	71,790
Consumption:						
Animal feed	8,100	35,420	43,520	7,900	33,950	41,850
Seed	1,900	1,520	3,420	1,900	1,520	3,420
Industrial use	60	3,470	3,530	50	3,370	3,420
Loss	220	140	360	220	130	350
Human food	19,890	2,650	22,540	20,100	2,650	22,750
Total consumption	30,170	43,200	73,370	30,170	41,620	71,790

[1] (+) = net imports; (—) = net exports.
Source: Perspectives "1970," Etude #10, 1962, EEC Commission.

In summary, a rise in French grain production is expected with or without a price rise. An increase in French prices, however, would stimulate additional acreage of grain, the extent of the increased acreage being related to the amount of increase in price. A moderate rise in French grain prices probably would not cut deeply into the EEC's net import requirements but a sharp rise (e.g., to the German price level) would sharply reduce the Community's net import needs from the outside.

Table 14.—FRANCE: Projected grain production in 1970 at various price levels

All Grain	Unit	"1958" (1957–59)	Assumptions		
			Constant price; Constant area	"Real" price constant; moderate rise in nominal price	Maximum technically possible1/
Area	1,000 hectares	9,080	9,080	9,500	10,550
	(million acres)	(22.4)	(22.4)	(23.5)	(26.1)
Yield	Quintals/ha.	22.0	29.3	30.1	30.6
	(tons/acre)	(.89)	(1.19)	(1.22)	(1.24)
Production	1,000 tons	19,981	26,600	28,600	32,300

1/ To be reached, this maximum level would require more than a 20 percent increase in nominal prices. (This would mean a grain support price close to the West German level).

Source: Perspectives "1970," Etude #10, 1962, EEC Commission.

Effects on Trade Patterns

A principal objective of the Common Agricultural Policy is to encourage trade within the EEC. Moreover, it appears certain that the French export surplus of soft wheat, barley and corn will continue to mount rapidly. Judging from the objectives of the CAP, it would appear that France should have no difficulty in expanding its exports within the EEC. Other Community members are already the major outlet for French feed-grain exports. There may be some problems, however, which relate to the quality of French wheat and the type of wheat most needed in other EEC countries.

Almost all the wheat produced in France is soft wheat, similar to the Red Winter variety produced in the United States. French durum wheat production averages only about 60,000 tons and high gluten wheat for blending (similar to U. S. Hard Winter) ranges from 150,000 to 200,000 tons. No important increase is expected in either durum or high gluten wheat production in France.

The EEC already is approximately self-sufficient in soft wheat production. Hence, it appears that France will experience difficulty in exporting its expanding soft wheat surplus to the other EEC members. What is needed by the main EEC importing countries; i.e., West Germany and the Netherlands, is high gluten for blending with soft domestic varieties. Now filling this need are Canadian Manitobas and U. S. Hard Red Spring and Hard Red Winter Wheats.

France's EEC partners have very little need for its soft wheat surplus, especially during the current season, because of the generally large crop throughout the area. The 1962 soft wheat crop in the Common Market countries is at a record level. Extremely favorable weather conditions resulted in record yields. France produced an alltime record wheat harvest of almost 14 million tons, approximately 4 million tons above its domestic needs.

Contracts for export sales of French wheat, as well as the current statistics on licenses issued for exports, indicate that only a negligible quantity of French soft wheat will move into EEC markets this year. The French have entered contracts to export about 1.5 million tons of wheat to the Soviet Bloc countries and Mainland China. These countries have not been important markets for France in the past.

During the first half of the 1962-63 marketing season, licenses were issued for about 1 million tons of wheat exports. Of this total, only 50,000 tons (or 5 percent) is destined for France's EEC partners. These countries generally take 30 to 35 percent of total French wheat exports.

The difficulty that France has in exporting soft wheat within the Community will depend from year to year on the supply situation in the area. There are ways, however, that could be worked out which would permit France to export its soft wheat surplus to other member countries.

The preferential reduction in the duty on intra-EEC trade is designed, as its name implies, to give France and other EEC exporters an advantage within the Community. If intra-EEC trade does not increase as is planned, the preferential is supposed to be reviewed and apparently increased. At present, it will be recalled, it equals only $1.00 per ton.

It seems improbable, however, that other EEC countries would force its millers and consumers to take excessive amounts of French wheat for bread making when it is not desired. A more likely alternative would be to make arrangements for the expansion of French wheat exports for feed use. Such an arrangement might be as follows: a separate (lower) threshold price could be set in the member countries with respect to wheat for feed. Such a price could be aligned with the threshold prices for coarse grains. Therefore, the duty which would apply to wheat for feed imports would be reduced in comparison with the duty on wheat for food. France could then export its soft wheat surplus as feed and avoid having to pay its exporters the subsidy which would be required if French wheat were compelled to move into the world market.

The outlook with regard to barley and corn exports to the EEC is much more favorable for France. Imports of barley and corn into the EEC (excluding France) recently have averaged about 2.5 million tons and 5 million, respectively. Since French barley and corn is of a highly acceptable quality to EEC partners, no problem is anticipated with respect to the expansion of these exports.

During the first half of the 1962-63 marketing season, French barley sales with EEC countries equalled about 35 percent of the 400,000 tons made eligible for export. This is somewhat below the average proportion of French exports to fellow members, which usually take about 50 percent of the total. Because of the poor 1962 French corn crop, exports to all destinations thus far during 1962-63 have been insignificant.

In summing up, it appears that the French will have difficulty expanding their soft wheat exports to the EEC unless (1) the preferential duty on intra-EEC trade makes imports of non-EEC wheat prohibitive or (2) a modification is made in the grain regulations permitting French feed wheat to enter other EEC countries at feed grain prices. The latter solution seems the more likely of the two. The outlook for barley and corn exports to the EEC is much more optimistic for France, since its EEC partners like the quality of its feed grains.